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10 June 1959

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CENTRAL INTELLIGENCE BULLETIN



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DAILY BRIEF

*Libya-Oil: (Libyan oil production is expected to reach 100,000 barrels daily by early 1961 and yield the government about \$36,000,000 annually in oil revenues,

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construction probably will get under way later this year or early) Pipeline

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(in 1960. Oil revenues should go a long way toward making the country self-supporting; in recent years the economy has been maintained only by foreign assistance, largely in return for Western base rights.)

MN
Laos: The Laotian cabinet's decision after much debate to release top pro-Communist political leaders from house arrest on 8 June apparently has aggravated the underlying conflict between old-guard conservatives and young reformers who opposed the move. This latest schism could lead to general instability and further disruption of the government's anti-Communist program. Despite the release of these leaders and the announcement that operations against the defected Pathet battalion have ended, the bloc will probably continue to protest publicly over the situation in Laos.

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JK
India-USSR: The high-level Indian economic mission which recently returned from Moscow obtained Soviet agreement to undertake preparatory work on the construction of a large machine-tool plant in India. In addition, a previously discussed \$20,000,000 loan for assistance in building pharmaceutical plants in India was signed, bringing total bloc aid to date to \$324,000,000, about ten percent of all foreign aid. While no definite action was taken on other Indian requests--such as doubling the capacity of the Bhilai steel mill--Soviet officials apparently made it clear to the Indians that they were ready to assist these projects and gave preliminary estimates of planning and scheduling.

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MN
Ceylon: Prime Minister Bandaranaike's cabinet reorganization announced on 9 June is primarily an effort to put on the appearance of change. Despite press reports of "sweeping changes," the

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reorganization consists mainly of assigning additional duties to certain ministers to fill the gap left by the resignation of two leftist ministers in mid-May. While Bandaranaike faces a tough fight on a no-confidence vote when Parliament reconvenes on 30 June, he still seems likely to survive.

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IV. CONCLUSIONS OF SPECIAL USIB COMMITTEE ON BERLIN SITUATION

The USIB has taken note of the following conclusions reached by its special committee on the Berlin situation. The committee pointed out that its conclusions were to be used in context with SNIE 100-2-59 (24 February 1959) and with the review of that estimate in SNIE 100-2/1-59 (17 March 1959):

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1. The information available to the Committee on the Geneva foreign ministers' conference and Communist public statements do not indicate any basic change in the Soviet position at Geneva on Berlin and Germany. Foreign Minister Gromyko--who appears to be playing for time on the assumption that the West will weaken--has maintained that any new arrangements regarding

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Western access to West Berlin must be within the framework of the Soviet free-city proposal.

2. So long as the USSR estimates that negotiations at Geneva are promising or that prospects for a summit conference are good, it probably will not conclude a separate peace treaty with the GDR or turn over access controls to the East Germans. However, negotiations may be reaching a stage where the USSR might consider it to be advantageous to increase threats of such action as a form of pressure on the West. The threat of a separate peace treaty may be raised while the East German leaders are in Moscow. The actual physical transfer of controls could be accomplished with little or no warning.

3. While there have been hints that the East Germans might harass West German civilian access to West Berlin, there are no reliable indications of an intent to seal off West Berlin in the immediate future. The USSR could take such actions with little or no warning.

4. There have been no significant changes in Soviet capabilities to respond to possible Western actions in the event of turnover, harassment, or blockade.

5. West Berlin's over-all economy is at an even higher level than this time a year ago. Morale continues to be good, although some apprehension exists as a result of press speculation that the West at Geneva may be considering some relinquishment of its rights in Berlin.

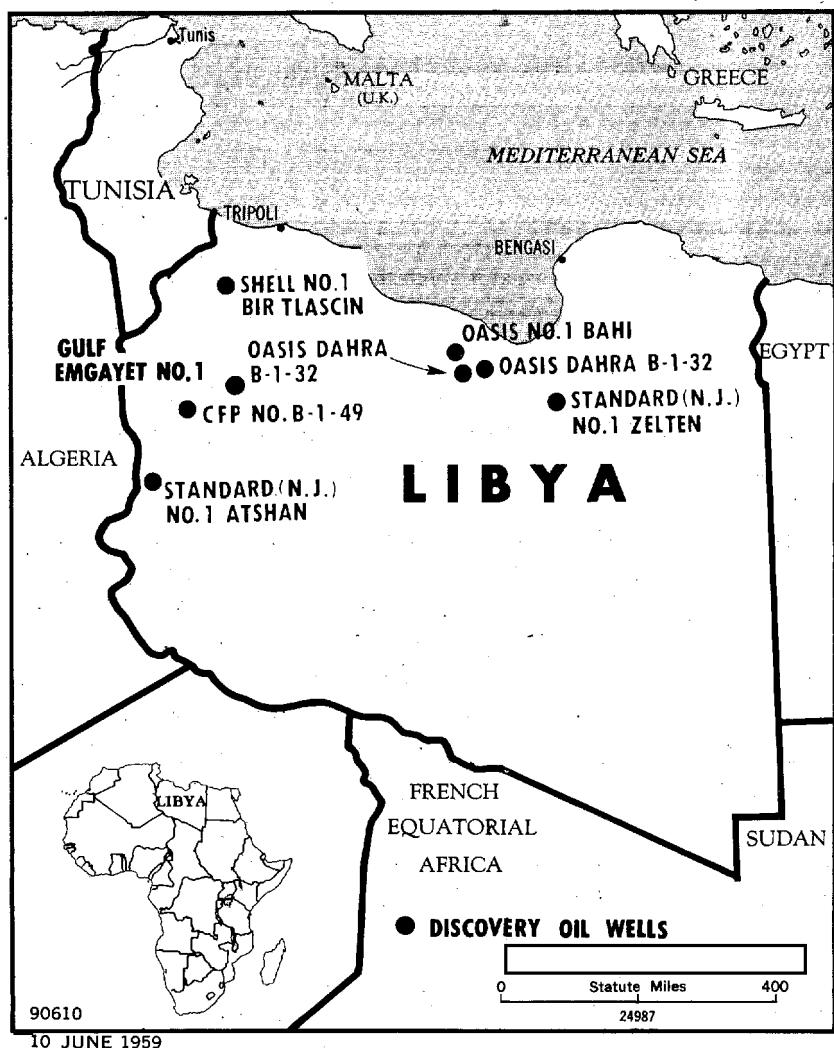
6. Adenauer's decision to remain as chancellor does not appear to have had any immediate effect on his government's position at the foreign ministers' conference.

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Libya Likely to Become Major Oil Producer

(Libyan oil production is expected to reach 100,000 barrels daily by 1961 and yield the government about \$36,000,000 annually in oil revenue,)

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Libya is described as one of the "hottest" wildcat areas outside of the United States. In less than 17 months, eight discovery wells have been drilled--four in the past two months alone.

French, British, Dutch, German, and American interests are represented in the 15 companies now active in the country.)

(Interest in Libya was sparked by the country's geographic position, which affords Europe a source of oil free from Nasir's control of the Suez Canal and pipelines across Syria. Libyan crude prices should be strongly competitive, because they will not include the pipeline and canal transit charges which add some 40 cents to the cost of each barrel of oil)

(The oil strikes promise in the course of a few years to make Libya economically viable. As its oil income becomes significant and its need for Western economic aid becomes less acute, the Libyan Government will probably become less dependent on the income derived from American and British military bases. Future Libyan policy decisions on this issue are likely, however, to be complicated by internal political changes and by provincial tribal rivalries. The most promising oil discoveries have been in Cyrenaica Province, while the most important Western military installation--Wheelus Air Base--is in Tripolitania.)

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Laotian Cabinet Divided Over Policy Toward Domestic Pro-Communists

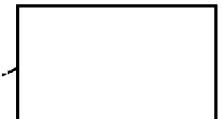
The Laotian Government's decision to end the house arrest of top pro-Communist leaders and to drop plans to prosecute them for allegedly inciting the rebellion of former Pathet Lao troops has aggravated the underlying conflict in the cabinet between old-guard politicians and young reformers. Although Premier Phoui Sananikone swung a majority of the cabinet behind his policy of moderation after a bitter debate on 6 June, there are indications that the young reformers are unreconciled. This controversy may revive the factional disputes that plagued the government in February and March and served to divert its attention from the important rural aid program.

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(Secretary of Defense Phoumi and Deputy Chief of Staff Ouan on 6 June said they felt that the government's policy of leniency toward the Communists was a mistake and speculated that the premier may have been motivated by fear that the military were seeking to maintain tension in order to take over the government.)

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(Foreign Minister Khamphan Panya told the US chargé on 7 June that he and several other proponents of a "hard line" might resign from the cabinet in protest, but later indicated that the reformers together with the crown prince might instead put pressure on Phoui to reverse the government's policy. The premier, however, does not expect that the crown prince will push the issue to a showdown or that the young reformers will resign.)



Despite the Laotian Government's release of the pro-Communist leaders and its announcement that operations against the defected Pathet battalion had ended, the Communist bloc probably will continue to protest publicly over the situation in Laos and call for the reconvening of the International Control Committee for Laos.

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India Obtains Soviet Assurances of Increased Aid for Third Five-Year Plan

The high-level Indian economic mission which recently returned from Moscow apparently was successful in obtaining assurances of increased Soviet aid for India's Third Five-Year Plan (1961-66). The mission, in addition to signing a previously discussed \$20,000,000 loan agreement to construct pharmaceutical plants in India, secured Soviet agreement to undertake preparatory work on the construction of a large machine-tool plant in India.

No definite action was taken on other Indian requests--such as doubling the capacity of the Bhilai steel mill--which would have an estimated foreign-exchange cost of \$735,000,000. Soviet officials apparently made it clear, however, that they were ready to help with these projects and gave preliminary estimates of their planning and scheduling. Soviet aid to India now totals \$324,000,000--about ten percent of the total foreign aid received by India--and will increase to nearly \$400,000,000 if, as seems likely, India accepts earlier Soviet offers to construct a petroleum refinery and an oil drilling equipment factory.

Moscow's latest offer will enable the Soviet bloc to play the predominant role in developing India's heavy machinery complex, a series of seven plants which is a major goal of India's third plan. The USSR had previously agreed to build plants to produce heavy machinery and coal-mining equipment, and Czechoslovakia had agreed to construct a large foundry-forgery. Although India apparently still hopes to obtain Western assistance for the remaining three units, determination to complete the heavy machinery complex during the third plan may make India receptive to further Soviet offers.

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